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UNCLAS SECTION 01 OF 03 NDJAMENA 000099

SIPDIS
SENSITIVE

STATE FOR AF/C AND AF/SPG
NSC FOR MGAVIN AND CHUDSON
LONDON FOR POL -- PLORD
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TAGS: PGOV ECON PREL EPET EFIN AU SU LY CD
SUBJECT: THE SIX BILLION DOLLAR DEAL: UPDATING THE CHAD PETROLEUM SECTOR AND CHAD GOVT HARD BUDGET TIMES WITH ESSO CHAD

REF: NDJAMENA 0079

NDJAMENA 00000099 001.2 OF 003

SUMMARY

¶1. (SBU) ESSO-Chad's General Manager Stephane de Mahieu told Ambassador March 18 that falling oil prices had devastated the Government of Chad's budget picture for 2009: the GOC earned USD 1.2 billion/billion in revenue in 2008, but would get as little as USD 150 million/million for 2009, largely because ESSO would turn no profit and so pay no taxes and pay only reduced royalties and export fees this year. The GOC had responded initially by "inviting" ESSO to defer calling back a fourth quarter 2008 overpayment of royalties, which de Mahieu said ESSO was considering doing. Even so, he estimated that the GOC would run out of money by May or June. De Mahieu acknowledged that the GOC was fortunate to have in hand for 2009 upwards of USD 400 million in 2008 budgetary surplus and the possibility of drawing on a USD 260 million line of credit from its regional Bank of Central African States (BEAC). But even that would not get Chad to the end of 2009. De Mahieu and Ambassador agreed that the GOC might be successful in increasing non-petroleum revenues by more efficient collection of taxes and by undertaking belt-tightening measures like retiring a bevy of senior army generals and "bancarising" state salaries by depositing wages directly into bank accounts to eliminate corruption and malfeasance. De Mathieu said that he doubted that a Chinese-built refinery (the first brick was laid last year) would ever be operational in Chad: its planned capacity was far too big -- 20 thousand barrels/day, one-sixth of ESSO's total current production; it would cost too much -- USD 500-750 million -- to justify its construction; and with the economic downtown, China's short-term demand for fuel was greatly reduced. Also, China was interested in other potential fields in Niger and was unlikely to try to develop more than one regional location.

¶2. (U) The U.S. investment in Chad's oil sector is the single biggest American private enterprise investment in Sub-Saharan Africa. The American economy has been a major beneficiary of this huge investment. During its construction phase, the project generated over 1,000 American jobs. Even

under routine operations, the current 260 American jobs generate over USD 83 million in personal income. Right now, over 50 percent of the consortium's material purchases and contracted labor are U.S. based, which represented USD 300 million in 2008. ExxonMobil and Chevron purchased 24 million barrels of Chad's crude oil in 2008 for distribution and use in the United States. Finally, to date, over USD two billion/billion of profit has been returned to U.S. shareholders through dividends.

¶3. (SBU) De Mahieu plans to travel Washington in early April. We recommend that his meetings in AF be at least at the DAS level and that AF consider putting him on the Acting Assistant Secretary's schedule if possible. We also think that a meeting at the NSC might be useful. ESSO Chad's impact on the U.S. economy is substantial -- see para 10 for details. In addition, de Mahieu is a sophisticated, well-informed player in the world of Chadian macroeconomics, which gives him considerable insight into Chadian political dynamics as well. He is acutely aware of the security implications for the ESSO-led consortium's USD six billion/billion investment for Chad's geopolitical situation and the GOC's financial strength.

¶4. (SBU) Chad's oil revenue, on which its ability to pay its military rests, is a major factor in Chad's stability and especially its willingness and capacity to cooperate productively with the humanitarian assistance effort on behalf of Darfur refugees and the reinforced MINURCAT PKO designed to protect civilians in eastern Chad. If developments in Sudan trend negatively, eastern Chad likely will become the theater for dramatic events that will require intense cooperation between the GOC with the international community represented here. END SUMMARY.

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FALLING OIL PRICES LEAD TO GOC BUDGET DIFFICULTY
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¶5. (SBU) Falling oil prices have had an impact on the Government of Chad's budget and its agreements with the oil production company, Esso Exploration and Production Chad Inc., which is an ExxonMobil-led consortium including Petronas and Chevron. Stephane de Mahieu, Esso's General Manager, told Ambassador March 18 that the GOC had earned USD 1.2 billion in revenue in 2008. With the drop in oil prices, de Mahieu estimated that the GOC would earn only USD 150 million in revenue for 2009 -- oil royalties would be greatly diminished and Esso would likely not turn a profit, thus denying the government any tax revenue either. Those circumstances had led the Minister of Finance to "invite" Esso to defer calling back a fourth quarter 2008 overpayment of royalties and to ask whether Esso would consider spreading out credit over a longer period than called for in the renegotiated agreement, according to de Mahieu. (NOTE: Under the prior GOC-Esso agreement that sunsetted at the end of 2008, Esso prepaid royalities quarterly, on the basis of the prior quarter's dollar-per-barrel price of oil. With the significant drop in the price of oil during the October - December 2008 timeframe, Esso "overpaid" its fourth quarter royalties to the GOC and is due a refund. END NOTE.)

¶6. (SBU) With the renegotiated agreement, ESSO will pay royalties on an ongoing basis and not under the former quarterly prepayment. De Mahieu stated that the GOC owed ESSO a large refund and there were no more big upfront payments to offset it. De Mahieu underscored that he appreciated the GOC's approach to dealing with the situation. The GOC was honoring the agreement and coming to the oil company first, instead of unilaterally changing terms, he said. ESSO was considering the GOC's request and would probably respond positively to help even out the GOC's revenue stream, but de Mahieu cautioned that the ESSO offer would probably not be as large as the GOC had hoped. De

Mathieu added that the three consortium companies might have to borrow funds themselves in 2009 from their parent companies to sustain investment -- critical for continued oil production.

¶7. (SBU) With the fall in oil prices, de Mahieu said that he had figured the GOC's budget would run out by May or June, including some USD 400 million in 2008 budgetary surplus, at the government's current spending rate. The Ambassador noted that World Bank reps (reftel) had told us that the GOC had a USD 260 million line of credit from its regional Bank of Central African States (BEAC). De Mahieu wondered about BEAC's ability to provide assistance when many of the six member states of the monetary union were heavy oil-producing countries. Ambassador stated that the GOC was also pursuing budget-tightening measures, such as retiring army generals and removing them from payrolls and "bancarising" state salaries by depositing wages directly into bank account in an anti-corruption measure.

¶8. (SBU) De Mahieu made clear that without a significant increase in oil prices, he could not see any opportunity for the GOC's budget to recover. He noted, however, that OPEC's oil production cut was helpful to Chad since the majority of OPEC's cuts were focused on heavy crude, the type of oil Chad exports. With OPEC's cut reducing competition in the market, coupled with high demand for heating oil due to cold winters in Europe and North America, heavy crude was trading only at a USD five per-barrel discount to Brent crude, compared with a USD 20 per-barrel discount last year. Putting the sale and revenue of oil in context, Mathieu estimated that every USD ten per barrel change in brent crude prices was equivalent to USD 300 million in annual revenue for the GOC.

CHINESE REFINERY NOT LIKELY

¶9. (SBU) Turning to the issue of a potential Chinese refinery, Mathieu offered a variety of facts and figures to support his belief that a Chinese-built refinery would ultimately never be operational in Chad. He noted that the refinery would operate at 20K barrels per day, which was one-sixth of ESSO's current production capacity in the south. Using the ESSO model of USD six billion/billlion in investment to reach that level of production, he figured that a refinery near N'Djamena would need USD 500 million of investment, at least. He flatly denied that there was anywhere near that level of investment by China or any other entity in Chad. Further, he postulated that with the economic downtown, China's short-term demand for fuel was greatly reduced with the lowered demand for Chinese exports. Additionally, he noted that there were potential fields on the Niger side of Lake Chad and elsewhere in Niger that seemed more promising than the Chadian deposits. He said he thought that the Chinese would ultimately only choose to develop in one location, not both. Even if the Chinese project continued development, de Mathieu estimated five years before the refinery would be producing refined fuel for local consumption. He noted that the GOC had recently requested talks with ESSO to produce some heavy product for GOC use in its southern Chad facility -- a "Topping Plant" there could refine some oil to be taken by the GOC in lieu of tax and other revenue.

ESSO CHAD AND THE U.S. ECONOMY

¶10. (U) The U.S. investment in Chad's oil sector is the single biggest American private enterprise investment in Sub-Saharan Africa. The American economy has been a major beneficiary of this huge investment. During its construction

phase, the project generated over 1,000 American jobs. Even under routine operations, the current 260 American jobs generate over USD 83 million in personal income. Right now, over 50 percent of the consortium's material purchases and contracted labor are U.S. based, which represented USD 300 million in 2008. ExxonMobil and Chevron purchased 24 million barrels of Chad's crude oil in 2008 for distribution and use in the United States. Finally, to date, over USD two billion/billion of profit has been returned to U.S. shareholders through dividends.

COMMENT

¶11. (SBU) De Mahieu plans to travel to be in Washington in early April. We recommend that his meetings in AF be at least at the DAS level and that AF consider putting him on the Acting Assistant Secretary's schedule if possible. De Mahieu is a sophisticated, well-informed player in the world of Chadian macroeconomics, which gives him considerable insight into Chadian political dynamics as well. He is acutely aware of the security implications for the ESSO-led consortium's USD six billion/billion investment for Chad's geopolitical situation and the GOC's financial strength.

¶12. (SBU) Chad's oil revenue, on which its ability to pay its military rests, is a major factor in the nation's stability and especially its willingness and capacity to cooperate productively with the humanitarian assistance effort on behalf of Darfur refugees and the reinforced MINURCAT PKO designed to protect civilians in eastern Chad. If developments in Sudan trend negatively, eastern Chad likely will become the theater for dramatic events that will require intense cooperation between the GOC and the international community represented here. END COMMENT.

13, (U) Tripoli minimize considered.
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